

Commerce Bancshares, Inc.

1000 Walnut Street
Kansas City, MO 64106

Via Email: regs.comments@federalreserve.gov

September 27, 2013

Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

RE: Docket No. OP-1461
Proposed Supervisory Guidance on Implementing Dodd-Frank Act Company-Run Stress Tests for Banking Organizations with Total Consolidated Assets of more than \$10 Billion but less than \$50 Billion

Dear Secretary Frierson:

Commerce Bancshares, Inc. ("CBI") is a regional bank holding company with one bank subsidiary, Commerce Bank, ("Commerce"), and total assets of \$21.9 billion at June 30, 2013. Commerce is a full-service bank, with approximately 360 banking locations in Missouri, Illinois, Kansas, Oklahoma, and Colorado. A full line of banking services, including investment management and securities brokerage, is offered. CBI also has operating subsidiaries involved in mortgage banking, credit related insurance, and private equity activities.

We have responses to the specific questions asked, but our most important comments are these:

- We would request that the stress test timelines be revised. The timing of the stress test project is such that most of the work has to be done beginning November 15th each year and completed by March 31st of the following calendar year. This is the worst time possible for banking finance staff as there are already huge time demands for year-end call reporting, SEC reporting, FRY-9 reporting, and many other reporting/regulatory requirements.

Staffing is already tight and overtime in this period is normally abundant. Requiring stress test work during this same period uses many of these same resources and will put huge strains needlessly on mid-sized banks. Often regulatory changes are implemented at the beginning of the new year and this will also become impossible to deal with.

Other than the stipulated reporting dates required in the stress test rules, there is no good reason to require the stress test to begin using 4th quarter numbers and be reportable in March each year. A much better approach would be to use 1st quarter as the base and require

submission by September 30th so to spread the work out and make more effective use of qualified bank staff.

- We believe that a level of capital should be determined that will exempt banks from the very costly Stress Test requirements entirely. The requirements of the stress test are hugely complicated and very costly to implement. Mid-sized banks will undoubtedly have to hire outside professionals to assist at very significant costs. Diversion of staff away from daily business to deal with bank risk by working on the stress test work in and of itself is a risk banks will incur. Even sophisticated modeling will be only an educated guess at best.

To save time, costs, and improve effectiveness for managing capital risks, we believe that the stress test regulations should provide a base level of capital over which a bank would not have to perform these costly procedures. Regulators could provide guidance on projected future loan losses (say assume 2% loan losses over a 2 year period) and if capital levels remain above a certain level, further stress testing would not be needed. This would provide great incentives for banks to always maintain higher capital levels or be forced into an onerous and costly process.

Following are our responses to the specific questions asked:

Question 1: What challenges do companies expect in relating national variables in the scenarios to regional and local market footprints?

While the agencies provided flexibility on whether or not to use regional or local variables, the process of incorporating these variables is an extremely complex and costly task. Mid sized banks typically don't have sufficient staff with quantitative capabilities to deal with regression work to tie these variables to company projections. Projection results become questionable as regression models aren't properly built with a true understanding of the bank. Regional data may be necessary for some banks where their operations do not fit the national economic data. All this suggests that the required work to integrate the required data is hugely time consuming, complicated and without the cost benefit needed to do the exercise.

Question 2: What additional clarity might be needed regarding the appropriate use of historical experience in the loss, revenue, balance sheet, and risk-weighted asset estimation process?

While the proposed guidance seems to provide some alternatives, banks still expect the regulators to require sophisticated regression techniques throughout the business units and financial statements of the bank. With lack of appropriate internal resources and expertise, this is proving very hard to do and results are proving uncertain.

There is a need to trim down requirements for projections so the scope of the project is more reasonable. Focus should be placed mostly on credit losses and net interest margins where typically bank risk exists and less emphasis should be placed on trying to perform complicated quantitative methods on fees and expenses unless material items are uncovered in the stress testing process. With the focus on developing a statistical approach to

developing projections, the emphasis on the true common sense risks that the company faces is often lost.

Question 3: What additional clarity should the guidance provide about the use of vendor or other third-party products and services that companies might choose to employ for DFA stress tests?

The proposed guidance seems fairly straightforward, in that vendor work must be reviewed and understood by the bank. However, these rules endorse complicated statistical methods which require qualified outside parties to do the work due to lack of qualified staff. Almost by definition, if the bank does not have adequate staffing, how could they truly understand the work done by vendors?

Question 4: How could the proposed guidance be clearer about the manner in which the required capital action assumptions between holding companies and banks differ, and how those different assumptions should be reconciled within a consolidated organization?

The issues here seem to apply only to multi bank holding companies. The proposed guidance seems sufficient.

Question 5: What additional clarification would be helpful to companies about the responsibilities of their boards and senior management with regard to DFA stress tests?

With emphasis on statistical projections methods as a basis for stress test projections, board members will be hard pressed to understand the complicated methods and results of the tests. It should be clear that their focus is on understanding how capital could be impacted by diminishing economic conditions, but it will be very hard for them to effectively challenge stress test results, as defined in the regulations.

Thank you for the opportunity to provide comments about the proposed stress test guidance. If you have any questions regarding our comments, please feel free to contact me.

Sincerely,

Jeffery Aberdeen
Corporate Controller
Commerce Bancshares, Inc.
816-234-2081
Jeff.Aberdeen@commercebank.com